

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Gwinn Area Community Schools	County Marquette
Audit Date 6/30/05	Opinion Date 10/15/05	Date Accountant Report Submitted to State: 11/28/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Makela, Toutant, Hill, & Nardi, P.C.			
Street Address 201 W. Bluff Street	City Marquette	State MI	ZIP 49855
Accountant Signature <i>Makela, Toutant, Hill & Nardi, P.C.</i>		Date 11/28/05	

Audited Basic Financial Statements
Required Supplementary Information
and Other Financial Information

GWINN AREA COMMUNITY SCHOOLS

June 30, 2005

Audited Financial Statements
Required Supplementary Information
and Other Financial Information

GWINN AREA COMMUNITY SCHOOLS

June 30, 2005

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MANAGEMENT'S DISCUSSION AND ANALYSIS

GWINN AREA COMMUNITY SCHOOLS

YEAR ENDED JUNE 30, 2005

Gwinn Area Community Schools is a K-12 Public School District located in Marquette County, Michigan. Our discussion and analysis of Gwinn Area Community Schools financial performance provides an overview of the School District's financial activities for the year ended June 30, 2005. Please read it in conjunction with the financial statements, which immediately follow this section.

Financial Highlights

- Net assets for Gwinn Area Community Schools as a whole were reported at \$3,885,859. Net assets are comprised of 100% governmental activities.
- During the year, Gwinn Area Community Schools expenses were \$13,315,768, while revenues from all sources totaled \$12,630,614, resulting in a decrease in net assets of \$685,154.
- There were no significant changes in programs for the 2004-2005 fiscal year. Enrollment increased 13.16 FTEs over the prior year; however the Foundation Allowance remained at \$6,700 per student.
- The Food Service Program continues to be a self-sustaining program.
- The general fund reported a decrease of \$436,615 after other financing sources (uses). This is \$13,049 more than the forecasted decrease of \$423,566, which is a net result of revenues being shown as \$40,150 less, expenditures as \$27,005 less and other financing sources as \$96 more. These are all immaterial (less than 1%) when compared with budgeted revenues/transfers of \$12,092,138 and budgeted expenditures/transfers of \$12,515,704. There were no significant variances between the final budget and actual amounts.

Overview of the Financial Statements

This annual report consists of three parts: Management's discussions and analysis (this section), the basic financial statements, and required supplementary information. Generally Accepted Accounting Principles (GAAP) through GASB 34 requires the reporting of two *types* of financial statements: District-Wide Financial Statements and Fund Financial Statements.

- The first type, *District-Wide Financial Statements (Government-Wide Financial Statements)*, consist of two statements: Statement of Net Assets and Statement of Activities. These provide both short-term and long-term information about the District's overall financial status.
- The second type, *Fund Financial Statements*, focus on individual parts of the district. These *Governmental Funds Statements* tell how basic services were financed in the short term as well as what remains for future spending. They report the District's operations in more detail than the District-Wide Statements by providing information

about the District's most significant funds – the General Fund and School Lunch Fund, with all other funds presented in one column as non-major funds.

- The remaining statement, the Statement of Fiduciary Net Assets, presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents.

The financial statements also include notes that further explain dollar amounts and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

District-Wide Financial Statements

The one thing all stake-holders (parents, teachers and community members) want to know is the financial condition of the District as a result of the year's activities. The District-Wide Financial Statements report information about the District as a whole and about its activities by using the accrual basis of accounting similar to that used by private-sector companies. The two required District-Wide Financial Statements are the *Statement of Net Assets* and the *Statement of Activities*. The *Statement of Net Assets* includes all of the District's assets and liabilities. The *Statement of Activities* includes all of the current year's revenues and expenditures regardless of when cash is received or paid.

Net Assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating. The relationship between revenues and expenditures is the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as private-sector companies do. To assess the District's overall health, you need to consider additional non-financial factors such as the quality of education provided, the safety of the schools, changes in the property tax base and the condition of school buildings and other facilities.

In the District-Wide Financial Statements, the Statement of Activities is divided into two categories:

- Governmental activities: The District's basic services are included here, such as regular and special education, transportation and administration. Property taxes, State Aid and grants finance these activities.
- Business-type activities: The District does not have any activities reported as business-type activities.

Fund Financial Statements

Fund Financial Statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition, no asset is reported and the issuance of debt is recorded as a financial resource. The current year's payment of principal

and interest on long-term obligations are recorded as expenditures, however, future year's debt obligations are not recorded. The Fund Financial Statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". In the State of Michigan, the following fund types and related activities are described as follows:

Governmental Funds – All of the District's services are reported in governmental funds, which include the general fund, food service fund, athletic fund, capital projects fund, and debt service fund. They focus on how money flows into and out of those funds and the remaining balances at year-end. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The district excludes these activities from the District-Wide Financial Statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

The condensed Statement s of Net Assets as of June 30, 2005 and 2004 is as follows:

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Current Assets	\$3,798,949	\$4,050,100
Capital Assets, net	<u>1,854,233</u>	<u>2,126,183</u>
Total Assets	5,653,182	6,176,283
Current liabilities	1,220,599	1,055,150
Non-current liabilities	<u>581,837</u>	<u>550,120</u>
Total Liabilities	1,802,436	1,605,270
Investment in Capital Assets, Net of Related Debt	1,500,928	1,750,402
Unreserved	<u>2,384,931</u>	<u>2,820,611</u>
Total Net Assets	<u>\$3,885,859</u>	<u>\$4,571,013</u>

The District's net assets were \$3,885,859 at June 30, 2005. Capital Assets, net of related debt totaling \$1,500,928 compares the original cost, less depreciation of the District's capital assets to long-term debt. The remaining amount of net assets of \$2,384,931 was unreserved and represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unreserved net assets from year to year.

The results of this year's operation for the District as a whole are reported in the Statement of Activities (see table below), which shows the changes in net assets for fiscal year 2005.

The condensed Statements of Activities for the fiscal years ended June 30, 2005 and 2004, are as follows:

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Revenues:		
Program revenues:		
Charges for Services	\$ 408,201	\$ 345,957
Operating Grants and Contributions	1,977,697	1,986,954
General Revenues		
Property taxes, levied for general purposes	1,307,421	1,216,231
State of Michigan aid, unrestricted	8,568,989	8,517,423
Local aid, unrestricted	340,700	63,727
Interest and investment earnings	23,064	14,911
Other	<u>4,542</u>	<u>167,024</u>
Total Revenues	<u>12,630,614</u>	<u>12,312,227</u>
Program Expenses:		
Instruction and instructional support	\$ 7,095,701	\$ 6,838,807
Support Services	5,175,161	4,496,512
Food Services	507,543	462,345
Athletics	268,911	233,763
Capital projects	20,059	16,616
Community services	56,605	74,421
Interest on long-term debt	3,007	1,445
Transfers to other governmental units	27,118	15,106
Depreciation (unallocated)	<u>161,663</u>	<u>163,003</u>
Total Expenses	<u>13,315,768</u>	<u>12,302,018</u>
Change in Net Assets	(685,154)	10,209
Beginning Net Assets	<u>4,571,013</u>	<u>4,560,804</u>
Ending Net Assets	<u>\$ 3,885,859</u>	<u>\$ 4,571,013</u>

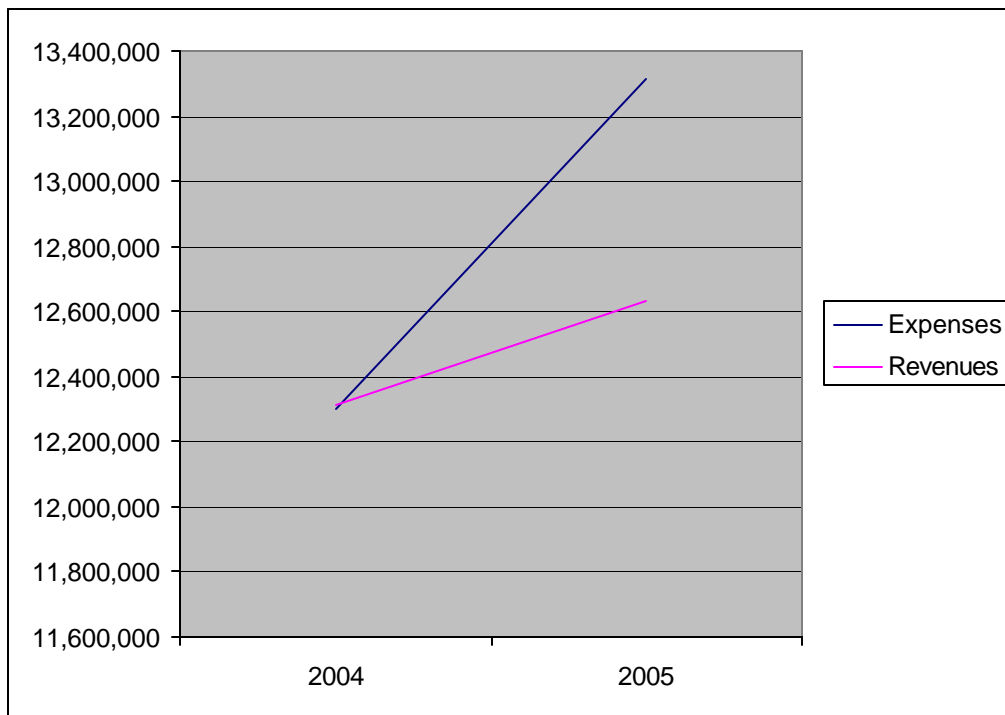
As reported in the Statement of Activities, the cost of all our governmental activities this year was \$13,315,768. Certain activities were partially funded from those who benefited from the programs (\$408,201) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$1,977,697). We paid for the remaining “public benefit” portion of our governmental activities with \$8,568,989 in State Foundation Allowance, \$1,307,421 in taxes, and other revenues, such as interest and general entitlements.

The District experienced a decrease in net assets for the year of \$685,154.

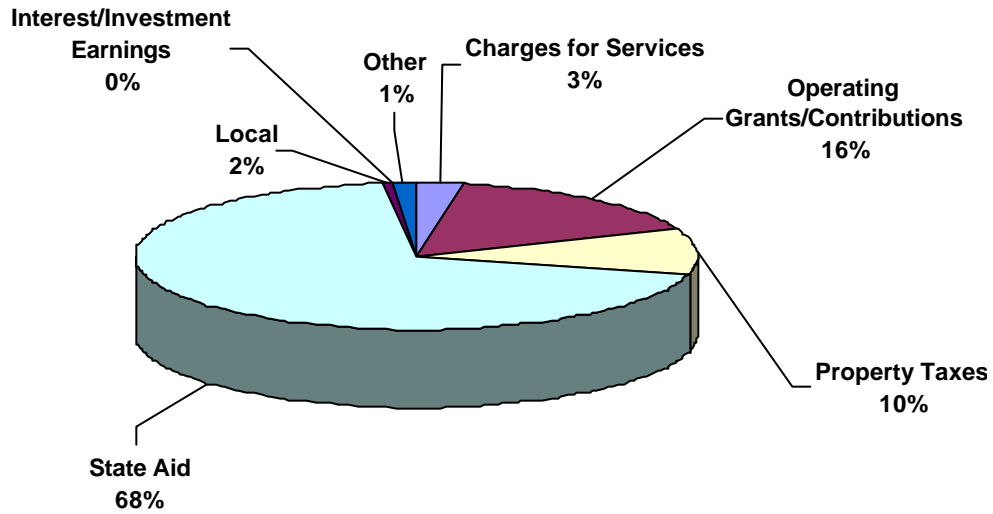
Key reasons for the change in net assets were as follows:

- Net decrease in governmental fund balances of \$(497,339)
- Depreciation charged to expense of \$(161,663)
- Other miscellaneous transactions of \$(26,152)

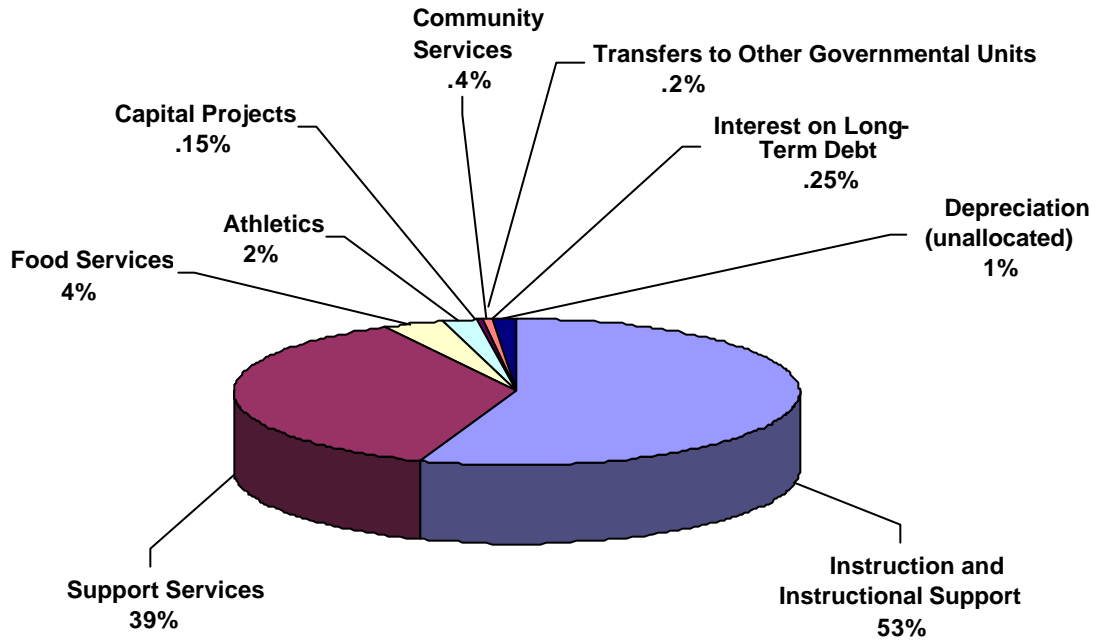
Revenues and Expenses 2004 vs. 2005



Sources of Revenues for Fiscal Year 2005



Expenses for Fiscal Year 2005



The following table presents the cost of each of the District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). Total costs were \$13,315,768; however, the following table excludes \$211,847 of costs related to depreciation (\$161,663), capital projects (\$20,059), transfers to other governmental units (\$27,118) and interest on long-term debt (\$3,007).

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<i>Governmental Activities</i>				
Instruction	\$7,095,701	\$ 6,838,807	\$5,777,143	\$ 5,502,943
Support Services	5,175,161	4,496,512	4,778,433	4,088,623
Food Services	507,543	462,345	(28,664)	(48,510)
Athletics	268,911	233,763	219,973	189,837
Community Services	<u>56,605</u>	<u>74,421</u>	<u>(28,862)</u>	<u>40,044</u>
Totals	<u>\$13,103,921</u>	<u>\$12,105,848</u>	<u>\$10,718,023</u>	<u>\$ 9,772,937</u>

The net cost shows the financial burden that each function placed on the District's operations, taxpayers and State. Since property taxes for operations and unrestricted State Aid constitutes 78% of the District's operating revenue sources (as shown in the pie chart), the Board of Education and Administration must annually evaluate the needs of the District and balance those needs with the State-prescribed available financial resources.

Financial Analysis of the District's Funds

The District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District's overall financial health.

As the District completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of \$2,484,642, a decrease of \$497,339 from the beginning of the year. The change in the combined fund balance was primarily the result of continuing to spend down the fund balances in the capital projects fund in the amount of \$45,461 and the food service fund in the amount of \$15,263. The remaining deficit comes from the general fund in the amount of \$436,615.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires the Board of Education approve the original budget for the upcoming fiscal year prior to the start of its fiscal year, which is July 1. Over the course of the year, the District's Board revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. For fiscal year 2005, the budget was amended in June 2005. A schedule showing the District's original and final

budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

Changes to the General Fund original budget included updating local revenue to reflect revisions in the non-homestead taxable value, updating current grant allocations and corresponding expenditures and updating salary and benefits pursuant to settled contracts. We also adjusted State Aid payments according to actual student counts.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2005 and 2004, the District had \$8,193,042 and 8,639,350, respectively invested in a variety of capital assets including land, buildings, and machinery and equipment.

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
<i>Capital Assets at Year-End</i>		
Land	\$ 37,293	\$ 37,293
Building & grounds	5,844,238	5,803,392
Site improvements	342,300	342,300
Machinery & equipment	653,387	778,817
Vehicles	<u>1,315,824</u>	<u>1,677,548</u>
Totals	<u><u>\$8,193,042</u></u>	<u><u>\$8,639,350</u></u>

This year's addition of \$44,611 was for playground equipment that was donated by the Parent/Teacher Organizations at each elementary building. No debt was issued for these additions.

We anticipate capital additions for the 2005-2006 fiscal year to be higher, as \$150,000 was set aside for capital improvements and a bus was purchased. We present more detailed information about our capital assets in Note D to the financial statements.

Debt

At June 30, 2005 and 2004, the School District had \$353,305 and \$375,781, respectively in bonds and long-term debts as depicted below.

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
<i>Outstanding Debt at Year-End</i>		
School Improvement Bonds	\$219,216	\$219,216
Northern Lights Revolving Loan	<u>134,089</u>	<u>156,565</u>
Totals	<u><u>\$353,305</u></u>	<u><u>\$375,781</u></u>

We present more detailed information about our long-term debt in Note G to the financial statements.

Factors Bearing on the District's Future

Our elected officials and administration consider many factors when setting the District's fiscal year 2006 budget. One of the most important factors affecting the budget is our student count. State Aid is determined by multiplying the blended student count by the foundation allowance per pupil. The 2006 fiscal year budget was adopted in June 2005, based on an estimate of students that will be enrolled in September 2005. It is important to understand that 78% of the District's General Fund revenues are based on an estimate (student enrollment and foundation allowance). Under State law, the District cannot assess additional property tax revenue for general obligations. As a result, the district funding is heavily dependent on the State's ability to fund local school operation. Based on the September count, student enrollment will be higher than what was estimated in the original 2005-2006 budget by 15.23 FTEs or \$104,706. In addition, even though the District's taxable value on non-homestead properties rose over the prior year's increase in the Consumer Price Index for the second year in a row, the voters approved a Headlee Override so that the District can levy the full 18 mills that the voters approved in 1994. This will net the District approximately \$60,000 in revenue.

Even though the District managed to reduce the 2005-2006 deficit by over \$950,000 through means of cuts, increased student enrollment and the passage of a Headlee override, the budget is still over \$550,000 in deficit. The district will continue to assess its financial standing to decide if the deficit will be absorbed by fund balance or if more cuts are to be made. In addition, the status and efficiency of all buildings is being analyzed. A comprehensive long-term plan will be decided upon which will include how to fund these capital improvements. Since the General Fund does not have the fund balance to cover these projects, the options are a sinking fund or bond issue, each one requiring voter approval due to increased mileage.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers and parents with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, Gwinn Area Community Schools, 50 W. M-35, Gwinn MI, 49841.



REPORT OF INDEPENDENT AUDITORS

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gwinn Area Community Schools, (School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Gwinn Area Community Schools, as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2005, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.



Board of Education
Gwinn Area Community Schools
Gwinn, Michigan

The management's discussion and analysis and the budgetary comparison information on pages one through nine and 38 through 39, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Gwinn Area Community School's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Makela, Tartant, Hill & Nardi, P.C.

October 15, 2005

STATEMENT OF NET ASSETS

GWINN AREA COMMUNITY SCHOOLS

June 30, 2005

	<u>Governmental Activities</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 792,997
Investments	876,068
Receivables:	
Due from other governmental units	1,995,575
Delinquent taxes	21,129
Other receivables	87,328
Inventory	<u>25,852</u>
TOTAL CURRENT ASSETS	3,798,949
NONCURRENT ASSETS	
Capital assets	8,193,042
Less: accumulated depreciation	<u>(6,338,809)</u>
TOTAL NONCURRENT ASSETS	1,854,233
TOTAL ASSETS	<u>5,653,182</u>
CURRENT LIABILITIES	
Accounts payable	373,387
Employee compensation and related liabilities	810,705
Deferred revenue	13,497
Accrued interest	81
Current portion of long-term liabilities	<u>22,929</u>
TOTAL CURRENT LIABILITIES	1,220,599
NONCURRENT LIABILITIES	
Bonds payable	219,216
Revolving loan payable	134,089
Compensated absences	251,461
Current portion of long-term liabilities	<u>(22,929)</u>
TOTAL NONCURRENT LIABILITIES	581,837
TOTAL LIABILITIES	<u>1,802,436</u>
NET ASSETS	
Investment in capital assets, net of related debt	1,500,928
Restricted for:	
Inventory	3,169
Unreserved	<u>2,381,762</u>
TOTAL NET ASSETS	<u>\$ 3,885,859</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2005

		Program Revenues		Governmental
				Activities
	Expenses	Charges for	Operating	Net (Expense)
		Services	Grants and	Revenue and
			Contributions	Changes in
				Net Assets
FUNCTIONS/PROGRAMS:				
Governmental Activities:				
Instruction and instructional support	\$ 7,095,701	\$ 160,516	\$ 1,158,042	\$ (5,777,143)
Support services	5,175,161	28,422	368,306	(4,778,433)
Food services	507,543	170,325	365,882	28,664
Athletics	268,911	48,938		(219,973)
Capital projects	20,059			(20,059)
Community services	56,605		85,467	28,862
Interest on long-term debt	3,007			(3,007)
Transfers to other governmental units	27,118			(27,118)
Depreciation (unallocated)	161,663			(161,663)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 13,315,768	\$ 408,201	\$ 1,977,697	(10,929,870)
GENERAL REVENUES:				
Property taxes, levied for general purposes				1,307,421
State of Michigan aid, unrestricted				8,568,989
Local aid, unrestricted				340,700
Interest and investment earnings				23,064
Other				4,542
TOTAL GENERAL REVENUES				10,244,716
CHANGE IN NET ASSETS				(685,154)
Net assets at beginning of year				4,571,013
NET ASSETS AT END OF YEAR				\$ 3,885,859

See notes to financial statements.

BALANCE SHEET--GOVERNMENTAL FUNDS

GWINN AREA COMMUNITY SCHOOLS

June 30, 2005

	General Fund	Food Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 790,576	\$ 2,216	\$ 205	\$ 792,997
Investments	876,068			876,068
Due from other governments	1,995,575			1,995,575
Delinquent taxes	21,129			21,129
Due from other funds			98	98
Other receivables	75,456	10,566	1,306	87,328
Inventory	22,683	3,169		25,852
TOTAL ASSETS	\$ 3,781,487	\$ 15,951	\$ 1,609	\$ 3,799,047
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 371,800	\$ 274	\$ 1,313	\$ 373,387
Employee compensation and related liabilities	810,705			810,705
Due to other funds	107,510	8,548	198	116,256
Deferred revenue	13,497			13,497
Other	560			560
TOTAL LIABILITIES	1,304,072	8,822	1,511	1,314,405
FUND BALANCES				
Reserved for:				
Inventories		3,169		3,169
Capital projects			98	98
Compensated absences	251,461			251,461
Undesignated, reported in:				
General Fund	2,225,954			2,225,954
Special Revenue Fund		3,960		3,960
TOTAL FUND BALANCES	2,477,415	7,129	98	2,484,642
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,781,487	\$ 15,951	\$ 1,609	\$ 3,799,047

See notes to financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS

GWINN AREA COMMUNITY SCHOOLS

June 30, 2005

Total governmental fund balance		\$ 2,484,642
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources; therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:		
Cost of capital assets	\$ 8,193,042	
Accumulated depreciation	<u>(6,338,809)</u>	1,854,233
Interfund payables and receivables are not included in the governmental activities Statement of Net Assets. The governmental funds have a net interfund payable of \$151,831, that is not included in the governmental activities in the Statement of Net Assets.		
		151,831
Interest on long-term debt is recorded in the governmental activities Statement of Net Assets when it accrues regardless of when it is due. In the governmental funds, however, it is recorded as an expenditure when it is due, and thus requiring the use of current financial resources. The current year net change in accrued interest is \$81.		
		(81)
Non-current liabilities, including bonds payable, are not due and payable in the current period; therefore, are not reported as liabilities in governmental funds. Non-current liabilities at year end consist of:		
Bonds payable	(219,216)	
Revolving loan payable	(134,089)	
Compensated absences	<u>(251,461)</u>	<u>(604,766)</u>
TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 3,885,859</u>

See notes to financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2005

	General Fund	Food Service Fund	Governmental Funds	Governmental Funds
REVENUES				
Local sources	\$ 1,867,404	\$ 170,325	\$ 93,548	\$ 2,131,277
State sources	8,966,257	30,684		8,996,941
Federal sources	860,949	335,198		1,196,147
Intermediate sources	306,195			306,195
TOTAL REVENUES	12,000,805	536,207	93,548	12,630,560
EXPENDITURES				
Current:				
Instruction and instructional support services	7,095,701			7,095,701
Supporting services	5,089,849	506,643	281,970	5,878,462
Community services	56,605			56,605
Debt service				
Principal			22,476	22,476
Interest			2,926	2,926
Capital outlay			44,611	44,611
TOTAL EXPENDITURES	12,242,155	506,643	351,983	13,100,781
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(241,350)	29,564	(258,435)	(470,221)
OTHER FINANCING SOURCES (USES)				
Transfers to local districts	(27,118)			(27,118)
Operating transfers in	55,510		223,657	279,167
Operating transfers out	(223,657)	(44,827)	(10,683)	(279,167)
TOTAL OTHER FINANCING SOURCES (USES)	(195,265)	(44,827)	212,974	(27,118)
NET CHANGE IN FUND BALANCES	(436,615)	(15,263)	(45,461)	(497,339)
Fund balances at beginning of year	2,914,030	22,392	45,559	2,981,981
FUND BALANCES AT END OF YEAR	\$ 2,477,415	\$ 7,129	\$ 98	\$ 2,484,642

See notes to financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2005

Net change in fund balances--governmental funds		\$ (497,339)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.		
Depreciation expense	\$ (254,875)	
Capital outlay	<u>44,611</u>	(210,264)
Accrued interest is recorded in the Statement of Activities when incurred; it is not reported in governmental funds until paid.		(81)
Repayments of long-term debt principal is an expenditure in the governmental funds, but not in the Statement of Activities.		<u>22,530</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u><u>\$ (685,154)</u></u>

See notes to financial statements.

STATEMENT OF NET ASSETS--FIDUCIARY FUND

GWINN AREA COMMUNITY SCHOOLS

June 30, 2005

	<u>Private Purpose Trust Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 6
Investments	46,929
Due from other funds	<u>19,288</u>
TOTAL CURRENT ASSETS	<u><u>\$ 66,223</u></u>
NET ASSETS	
Due to other funds	
Restricted--scholarships	\$ 46,929
Designated--scholarships	<u>19,294</u>
TOTAL NET ASSETS	<u><u>\$ 66,223</u></u>

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS--
FIDUCIARY FUND

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2005

	Private Purpose Trust Fund
	<hr/>
OPERATING EXPENSES	
Scholarships Paid	\$ 500
	<hr/>
TOTAL OPERATING EXPENSES	500
	<hr/>
OPERATING LOSS	(500)
NONOPERATING REVENUES (EXPENSES)	
Unrealized gain (loss) on investment	2,553
Interest income	2,326
	<hr/>
TOTAL NONOPERATING REVENUES (EXPENSES)	4,879
	<hr/>
CHANGE IN NET ASSETS	4,379
Net assets at beginning of year	61,844
	<hr/>
NET ASSETS AT END OF YEAR	\$ 66,223
	<hr/>

See notes to financial statements.

STATEMENT OF FIDUCIARY NET ASSETS--
FIDUCIARY FUND

GWINN AREA COMMUNITY SCHOOLS

June 30, 2005

	<u>Student Activities</u>
ASSETS	
Cash and cash equivalents	\$ 23,505
Due from other funds	<u>105,829</u>
TOTAL ASSETS	<u>\$ 129,334</u>
LIABILITIES	
Accounts payable	\$ 103
Due to other funds	8,959
Due to student groups	<u>120,272</u>
TOTAL LIABILITIES	<u>\$ 129,334</u>

NOTES TO FINANCIAL STATEMENTS

GWINN AREA COMMUNITY SCHOOLS

June 30, 2005

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Gwinn Area Community Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local units of government through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, that do not conflict with or contradict GASB pronouncements. The more significant policies established in GAAP and used by the School District are discussed below:

Reporting Entity

The School District provides elementary and secondary education for the residents of Forsyth, Sands, West Branch and Skandia Townships, and secondary education for the residents of Wells Township. A seven-member Board of Education elected by the public has oversight responsibility over all operations of the School District.

In evaluating how to define the School District for financial reporting purposes, management has considered all potential component units. The decision not to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibilities include, but are not limited to, the selection of governing authority; the designation of management; the ability to significantly influence operations; and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School District and/or its constituents, or whether the activity is conducted within the geographic boundaries of the School District and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the School District is able to exercise oversight responsibilities.

Based upon the application of the criteria described above, the financial statements of the Gwinn Area Community Schools contain all the funds and account groups controlled by the School District's Board of Education as no other entity meets the criteria to be considered a component unit of the School District nor is the School District a component unit of another entity.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Basic Financial Statements--Government-Wide Financial Statements

The School District's basic financial statements include both government-wide and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The School District's instruction, support, and community services are classified as governmental activities. The School District does not have any business-type activities. Fiduciary activities are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis, and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported as either investment in capital assets, net of related debt, restricted, or unrestricted.

The government-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. General government revenues (property taxes, state aid, etc.) support the functions. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants directly associated with the function.

The government-wide focus emphasizes the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities.

Basic Financial Statements--Fund Financial Statements

The financial transactions of the School District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The District utilizes the following funds:

Governmental Funds: The focus of the governmental funds' measurement is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the School District:

General Fund: The General Fund is the primary operating fund and, accordingly, it is used to account for all financial resources except those accounted for in another fund.

Special Revenue Funds: Special Revenue Funds are used to account for activities of specific school service revenue (hot lunch and athletics) or other revenue sources that are legally restricted to expenditures for specific purposes.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Debt Service Fund: The Debt Service Fund is used to accumulate resources for payment of interest and principal on long-term debt.

Capital Projects Fund: The Capital Projects Fund is used to account for financial resources of major capital expenditures, including equipment.

Fiduciary Funds: Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support the School District's programs. The reporting focus is on net assets and changes in net assets and are reported using accounting principles similar to proprietary funds. The following is a description of the fiduciary funds of the School District:

Agency Fund: The Agency Fund accounts for assets held by the School District in a custodial capacity for various student organizations. Since the Agency Fund is custodial in nature, they do not involve the measurement of results of operations.

Nonexpendable Trust Funds: Nonexpendable Trust Funds are those whose principal cannot be expended. The administration of the School District treats the Scholarship Fund as nonexpendable due to the restrictions of outside contributors.

The emphasis in fund financial statements is on the major funds. Non-major funds by category are summarized into a single column for presentation. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category or the government combined) for the determination of major funds.

The School District's fiduciary funds are presented in the Fund Financial Statements by type. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

The District will first apply restricted net assets for expenses incurred for purposes for which both restricted and unrestricted net assets are available.

Basis of Accounting

The basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Government activities in government-wide financial statements, and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; that is, when both measurable and available. "Available" means collectible within the current period or within sixty days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred, except for principal and interest on general obligation debt, if any, is recognized when due.

The Nonexpendable Trust Fund uses the accrual basis of accounting. Revenues are recognized in the period in which they are earned and become measurable, and expenses are recognized in the period incurred.

Financial Statement Amounts

Cash and Cash Equivalents: The School District has defined cash and cash equivalents to include cash on hand, demand deposits, and time deposits with an initial maturity of three months or less.

Deposits and Investments: The District reports its investments in accordance with GASB No. 40, *Deposit and Investment Risk Disclosures*. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified are also disclosed.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, mutual funds composed of investments as described above, and obligations of the State of Michigan or any of its political subdivisions, that at the time of purchase, are rated as investment grade by not less than one standard rating service.

Inventory: Inventory in the School Lunch Fund consists of expendable food and supplies held for consumption. The inventory, valued at the lower of cost (first-in, first-out) or market, is recorded as an expenditure at the time individual inventory items are used.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Capital Assets: Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets, if any, are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives.

Buildings and improvements	10-50 years
Furniture and equipment	5-20 years
Buses and other vehicles	8 years

General capital assets are those that result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the Government-Wide Statement of Net Assets, but are reported in the Fund Financial Statements as capital outlay expenditures.

Accrued Liabilities and Long-Term Obligations: Payables and accrued liabilities that will be paid from governmental funds are reported on governmental fund financial statements regardless of whether they will be liquidated with current financial resources. The non-current portion of compensated absences, that will be paid from governmental funds are reported as a liability in fund financial statements only to the extent that they will be paid with current, expendable, available financial resources (generally, within sixty days of year-end). Bonds and other non-current liabilities that will be paid from governmental funds are not recognized as a liability in fund financial statements until due.

Deferred Revenue: The School District reports deferred revenue when revenue does not meet both the "measurable" and "available" criteria for recognition in the current period, or when resources are received by the School District before it has a legal claim to them, such as when grant money is received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the School District has legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

Net Assets: Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted only when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or other government regulation.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Interfund Activity: Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided are treated as revenues and expenditures/expenses. Reimbursement occurs when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the Government-Wide Financial Statements.

Accounts Payable: Amounts due for expenses incurred but not paid as of June 30, are recorded as accounts payable on the balance sheet.

Employee Compensation and Related Liabilities: Payroll and related withholding and expenses, which have been earned by School District employees but not paid as of June 30, are recorded as a liability on the School District's balance sheet.

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The recognition of sick and vacation leave is governed by policies approved in various employee contracts.

Accumulated unpaid compensated absences are recorded in accordance with GASB Statement No. 16. This Statement requires vacation leave-type absences to be accrued if the employee has earned but not used it and for which the employee can receive compensation in a future period. Sick leave-type absences are recorded as a liability if the employee earns the right to be compensated for all or a portion of their accumulated leave upon termination. The method used to determine the liability includes both employees who currently are eligible (vested) to receive termination payments and other employees who are expected to become eligible (vested) in the future. The accumulations are reduced to the maximum amount allowed as a termination payment. GASB Statement No. 16 also requires an additional amount to be recorded as a liability for salary-related payments associated with the payment of compensated absences (Social Security taxes, etc.). Current amounts, expected to be liquidated with expendable available financial resources, are reported as an expenditure and a fund liability of the governmental fund from which they will be paid.

Accumulated vacation and sick pay amounts that are not current, and, not expected to be liquidated with expendable available financial resources, are recorded in the Government Wide Statements.

Substantially, all of the School District's employees participate in the Michigan Public School Employees' Retirement System. Additional post-employment benefits are provided by the Michigan Public Schools Employees' Retirement System.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Due to Student Groups: The School District holds, in a fiduciary capacity, funds owned by various student classes and organizations. The asset and related liability is recorded in the School District's Student Activities Fund.

Fund Balance: The unreserved fund balances represent the amount available for budgeting future operations. The reserved fund balances represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources." The designated fund balances represent tentative plans for future use of financial resources.

Property Taxes: Property taxes are levied on July 1, on behalf of the School District by various taxing units. The School District recognizes property tax revenue when levied, to the extent they result in current receivables (that is, collected within 60 days of the balance sheet date).

Collections include delinquent real property taxes remitted by the County of Marquette. If the delinquent taxes are not collected from taxpayers within three years, the School District must refund the taxes plus interest.

State Revenue: The State of Michigan uses a foundation grant approach that provides for a specific annual amount of revenue per student based on a statewide formula. The foundation is funded from state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the School Districts. For the year ended June 30, 2005, the foundation allowance was based on a blended average of pupil membership counts taken in 2004.

The State's portion of the foundation is provided primarily by a property tax millage of 6.00 mills (on both homestead and non-homestead property) and by an allocated portion of sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes levied at a rate of up to 18 mills. The loss of local funding as a result of a Renaissance Zone formed within the School District was reimbursed by the State. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October through August.

The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received that are not expended by the close of the fiscal year are recorded as deferred revenue.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budgets and the Budgetary Process: The School District follows the budgetary process prescribed by provisions of the State of Michigan Uniform Budgeting and Accounting Act, and entails the preparation of budgetary documents within an established timetable. The General Fund and all Special Revenue funds are legally required to be budgeted and appropriated with the exception of fiduciary funds. The legal level of budgetary control has been established at the functional level with modifications made only by a resolution of the Board. At the close of each year, budget appropriations lapse.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE B--CASH AND INVESTMENTS

Cash and cash equivalents and investments included in the basic financial statements as of June 30, 2005, consists of the following:

Type	Maturities	Carrying Value
Deposits:		
Demand Deposits		\$ (202,017)
Cash in savings		993,835
Cash on hand		1,179
		<u>\$ 792,997</u>
Investments:		
Time Deposit	9/1/2005	\$ 325,000
Time Deposit	10/3/2005	550,000
MILAF Funds		1,068
		<u>\$ 876,068</u>
Total Deposits and Investments:		<u>\$ 1,669,065</u>
Reconciliation to Statement of Net Assets:		
Cash and cash equivalents		\$ 792,997
Investments		<u>876,068</u>
		<u>\$ 1,669,065</u>

Custodial Credit Risk

At year-end, the carrying amount of the District's deposits with financial institutions, including time deposits that are classified as investments, approximated \$1,667,886 and the balance per bank statements approximated \$1,909,356. Of the bank balance, \$200,000 of the District's deposits were insured by the Federal Deposit Insurance Corporation (FDIC). The remaining balance of \$1,709,356 was uninsured and uncollateralized. Therefore, the District is subject to custodian credit risk. Custodian credit risk is the risk that, in the event of a financial institution failure, the District's deposits may not be returned to it. The District places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are in the opinion of the District subject to minimal credit risk.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE B--CASH AND INVESTMENTS--Continued

Investments

At year-end, the fair value of the District's investments and scheduled maturities of those investments are as follows:

	<u>Fair Value</u>	<u>Maturities Less than 1 year</u>
MILAF Funds		
	\$ 1,068	\$ 1,068
Time Deposits		
	875,000	875,000
TOTAL INVESTMENTS	<u><u>\$ 876,068</u></u>	<u><u>\$ 876,068</u></u>

Investment Interest Rate Risk

The District has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities of investments at June 30, 2005, are provided in the previous schedule.

NOTE C--INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Amounts due from (receivable) and to (payable) the individual funds, by fund, as of June 30, 2005, are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Capital Projects	\$ 98	General	\$ 107,510
Nonexpendable Trust	19,288	Athletics	198
Agency	105,829	School Lunch	8,548
		Agency	8,959
	<u> </u>		<u> </u>
TOTAL	<u><u>\$ 125,215</u></u>	TOTAL	<u><u>\$ 125,215</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE C--INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS--Continued

The above amounts do not represent interfund borrowings; instead, they represent actual amounts which are pending between funds at year-end, due to the timing of cash flows. Generally, these amounts clear shortly after year-end when resources become available.

Amounts transferred to and from various individual funds for the year ended June 30, 2005, are as follows:

<u>Fund</u>	<u>Transfers to Other Funds</u>	<u>Fund</u>	<u>Transfers From Other Funds</u>
General	\$ 223,657	Athletics	\$ 223,657
Athletic	10,683	General	55,510
School Lunch	<u>44,827</u>		
	<u>\$ 279,167</u>		<u>\$ 279,167</u>

NOTE D--CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
Non-depreciated capital assets:				
Land	\$ 37,293			\$ 37,293
Capital assets:				
Building and grounds	5,803,392	\$ 44,611	\$ (3,765)	5,844,238
Site improvements	342,300			342,300
Machinery and equipment	778,817		(125,430)	653,387
Vehicles	1,677,548		(361,724)	1,315,824
Subtotal	<u>8,602,057</u>	<u>44,611</u>	<u>(490,919)</u>	<u>8,155,749</u>
TOTAL CAPITAL ASSETS	<u>\$ 8,639,350</u>	<u>\$ 44,611</u>	<u>\$ (490,919)</u>	<u>\$ 8,193,042</u>

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE D--CAPITAL ASSETS--Continued

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Accumulated depreciation:				
Building and grounds	\$ 4,215,651	\$ 143,695	\$ (408)	\$ 4,358,938
Site improvements	342,300			342,300
Machinery and equipment	594,509	29,560	(119,913)	504,156
Vehicles	1,360,707	81,620	(308,912)	1,133,415
Subtotal	<u>6,513,167</u>	<u>254,875</u>	<u>(429,233)</u>	<u>6,338,809</u>
NET CAPITAL ASSETS	<u>\$ 2,126,183</u>	<u>\$ (210,264)</u>	<u>\$ (61,686)</u>	<u>\$ 1,854,233</u>

Depreciation expense was charged to functions as follows:

Governmental activities:

Supporting services	\$ 85,312
Athletics	7,000
School services	900
Unallocated	<u>161,663</u>
TOTAL DEPRECIATION EXPENSE	<u>\$ 254,875</u>

NOTE E--DEFERRED REVENUE

Deferred revenue consists of the following at June 30, 2005:

Michigan school readiness	\$ 13,150
Drug free schools	<u>347</u>
TOTAL DEFERRED REVENUE	<u>\$ 13,497</u>

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE F--ACCUMULATED UNPAID COMPENSATED ABSENCES

The School District recognizes a liability for accumulated unpaid compensated absences as of June 30, 2005, as follows:

Current portion	\$ 68,188
Long-term debt	<u>251,461</u>
 TOTAL ACCUMULATED UNPAID COMPENSATED ABSENCES	 <u><u>\$ 319,649</u></u>

The current portion is recorded as a liability in the General Fund and is included with employee compensation and related liabilities. The long-term and current portions are included in the Government Wide Statements.

NOTE G--LONG-TERM DEBT

A summary of changes in long-term debt for the year ended June 30, 2005, is as follows:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
General Long-Term Debt				
Account Group:				
School Improvement Bond, Series 1998	\$ 219,216			\$ 219,216
Northern Lights Revolving Loan	156,565		\$ (22,476)	134,089
Compensated absences	<u>196,815</u>	<u>\$ 54,646</u>	<u></u>	<u>251,461</u>
	<u><u>\$ 572,596</u></u>	<u><u>\$ 54,646</u></u>	<u><u>\$ (22,476)</u></u>	<u><u>\$ 604,766</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE G--LONG-TERM DEBT--Continued

The annual debt service requirements for the School District's debt (excluding compensated absences) for the years ending June 30, 2006 through June 30, 2015, are as follows:

BONDS PAYABLE

The School District participated in the School Improvement Bond, Series 1998, to obtain one-half of their portion of the statewide Durant Settlement. As part of the settlement, the School District will receive one-half of their total settlement of \$686,265 over a ten-year period. The remaining one-half of the settlement was received in bond proceeds. The debt service requirements of the bonds will be allocated to the School District by the State of Michigan over a fifteen-year period beginning May 15, 1999, as part of their state aid payments. A schedule of the School District's repayment schedule is as follows:

Year Ended June 30	Governmental Activities		
	Durant Bonds		
	Principal	Interest	Total
2006	\$ 16,609	\$ 7,487	\$ 24,096
2007	17,396	6,696	24,092
2008	18,228	5,868	24,096
2009	19,096	5,000	24,096
2010	20,005	4,091	24,096
2010 - 2015	127,882	34,016	161,898
	<u>\$ 219,216</u>	<u>\$ 63,158</u>	<u>\$ 282,374</u>

NORTHERN LIGHTS REVOLVING LOAN

The School District participated in a project to replace the lighting systems at all of the schools in the district with a high efficiency lighting system. The project was completely funded and executed by the Michigan Technical Education Center (M-TEC) at Bay de Noc Community College. After completion of the project, the School District entered into a seven-year note, in the amount of \$165,798 with an annual interest rate of two percent, to reimburse M-TEC for the lighting system. In addition to the monthly installment of \$2,117 the School District is obligated to share with M-TEC 50 percent of the savings from the Energy Management Program, net of the monthly installment paid. All energy bills are sent to M-TEC and they calculate what the energy savings was for the period, and invoice the School District for the amount due.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE G--LONG-TERM DEBT--Continued

Year Ended June 30	Governmental Activities		
	Northern Lights Revolving Bond		
	Principal	Interest	Total
2006	\$ 22,929	\$ 2,473	\$ 25,402
2007	23,392	2,010	25,402
2008	23,865	1,537	25,402
2009	24,346	1,056	25,402
2010	24,838	564	25,402
2010 - 2015	14,719	98	14,817
	<u>\$ 134,089</u>	<u>\$ 7,738</u>	<u>\$141,827</u>

NOTE H--RESERVED AND DESIGNATED FUND BALANCE

The School District reserves fund balance for the following purposes:

Inventory: In accordance with the AICPA Audit Guide, *Audits of State and Local Governmental Units*, fund balance has been reserved in an amount equal to inventories. This reservation has been recorded to indicate that inventories do not constitute "available spendable resources."

Scholarship Income: The School District reserves fund balance for the nonexpendable gifts received in the Scholarship Fund. Only the investment income from these gifts is to be used for scholarships.

The School District designates fund balance for the following purposes:

Long-Term Portion of Accrued Unpaid Compensated Absences: The School District provides employees with a sick leave benefit plan which provides for a cash payment to qualified employees in the amount of unused sick pay upon termination of employment, or upon request, once the employee is vested (10 years). Fund balance has been designated in an amount equal to the long-term portion of accumulated sick pay and retirement benefits, as the general fund is obligated to pay this benefit, but the liability is not recorded in the General Fund.

Unexpended Investment Income on Scholarship Funds: Interest and dividends received on Scholarship Fund investments are to be used for scholarship awards to students. The accumulated balance of unexpended investment income is designated for scholarships.

Capital Projects: For the funding of current and future major capital expenditures.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE I--PROPERTY TAXES

The non-homestead taxable value of real and personal property located in the School District at July 1, 2004, totaled \$82,010,334 representing approximately 50 percent of estimated current value. The tax levy for the year was based on a rate of 17.4654 mills (one mill is equal to \$1.00 per \$1,000 of taxable value) and is remitted to the School District's general fund by taxing units.

The School District's general fund millage on non-homestead property, approved by voters in 1994, will expire in 2013, after which it may be renewed by a vote of the residents of the School District.

NOTE J--MICHIGAN UNIFORM BUDGETING AND ACCOUNTING ACT

The budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) and the budget, as presented, has been amended.

Capital outlay budgets in the General Fund are not segregated from other educational expenditures for financial statement presentation.

NOTE K--EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN

The School District contributes to the Michigan Public School Employees' Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor, and disability benefits to public school employees. Eligibility and benefit provisions are governed under Public Act 136 of 1945, re-codified and currently operating under the provisions of Public Act 300 of 1980, as amended. MPERS issues a publicly available financial report that includes financial statements and required supplementary information. The annual report may be obtained by writing to the Department of Management and Budget, Office of Retirement Systems, P.O. Box 30171, Lansing, Michigan 48909-7671, or by calling (517) 322-5103.

The School District was required by state statute to contribute 12.99 percent of covered payroll from July 1, 2004 to September 30, 2004, and 14.87 percent from October 1, 2004 to June 30, 2005. Contributions to MPERS are determined on an actuarial basis using the entry age normal actuarial cost method. Contribution requirements of plan members including the School District are established and may be amended only by state statute. The School District's contributions to MPERS for the years ending June 30, 2005, 2004, and 2003, were \$994,065; \$860,884; and \$847,520, respectively. Retirement contributions payable at June 30, 2005, 2004, and 2003, were \$89,968; \$70,678; and \$66,234, respectively, were remitted shortly after year-end.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE K--EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN--Continued

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9 percent. Members first hired January 1, 1990, or later, and returning members who did not work between January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Basic Plan members make no contributions. Contributions collected and remitted by the School District on behalf of MIP members for the years ending June 30, 2005, 2004, and 2003, were \$205,659; \$195,723; and \$192,040, respectively, equal to the required contributions for each year.

Other Post-Employment Benefits

In addition to the pension benefits, MPSERS provides comprehensive group medical, hearing, dental, and vision coverage for retirees and beneficiaries. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension of the retiree. The portion provided by MPSERS is factored into the pension contribution rate.

NOTE L--RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District, together with approximately 334 other school districts in the State, participate in the MASB-SEG Property/Casualty Pool, Inc., (Pool) a governmental group property and casualty self-insurance pool. The School District pays an annual premium to the Pool for its general insurance, workers' compensation, and errors and omissions coverage. Members' contributions to the Pool in excess of claim losses, expenses, and other costs may be refunded; and the Pool may assess members a supplemental assessment in the event of deficiencies.

The Pool limits the maximum net loss that may arise from large risks, or risks in concentrated areas of exposure by re-insuring certain levels of risk with other insurers or re-insurers. The School District's comprehensive and fleet insurance coverage is limited to a maximum of \$6,000,000 per occurrence for all claims. The School District also maintains an additional \$1,000,000 per occurrence for excess liability coverage. The Pool is responsible for paying costs up to the insurance limits with any additional costs covered by the School District.

Management is unaware of any pending or threatened claims that are not covered by the Pool that would be material to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE--BUDGET AND ACTUAL
GENERAL FUND

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Local sources	\$ 1,590,668	\$ 1,946,255	\$ 1,867,404	\$ (78,851)
State sources	8,471,825	8,839,756	8,966,257	126,501
Federal sources	145,527	948,744	860,949	(87,795)
Other	310,000	306,200	306,195	(5)
TOTAL REVENUES	10,518,020	12,040,955	12,000,805	(40,150)
EXPENDITURES				
Current:				
Instruction	6,310,148	7,084,979	7,095,701	(10,722)
Supporting services	4,252,657	5,106,478	5,089,849	16,629
Community service	17,875	77,703	56,605	21,098
Capital outlay				
TOTAL EXPENDITURES	10,580,680	12,269,160	12,242,155	27,005
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(62,660)	(228,205)	(241,350)	(13,145)
OTHER FINANCING SOURCES (USES)				
Transfers to other governmental units	(24,000)	(27,118)	(27,118)	
Transfers from other funds	57,391	51,183	55,510	4,327
Transfer to other funds	(209,402)	(219,426)	(223,657)	(4,231)
TOTAL OTHER FINANCING SOURCES (USES)	(176,011)	(195,361)	(195,265)	96
NET CHANGE IN FUND BALANCE	(238,671)	(423,566)	(436,615)	(13,049)
Fund balance at beginning of year	2,810,640	2,914,030	2,914,030	
FUND BALANCE AT END OF YEAR	\$ 2,571,969	\$ 2,490,464	\$ 2,477,415	\$ (13,049)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE--BUDGET AND ACTUAL
FOOD SERVICE FUND

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Local sources	\$ 172,964	\$ 170,450	\$ 170,325	\$ (125)
State sources	23,500	29,267	30,684	1,417
Federal sources	328,000	329,123	335,198	6,075
TOTAL REVENUES	524,464	528,840	536,207	7,367
EXPENDITURES				
Supporting services	477,573	501,027	506,643	(5,616)
TOTAL EXPENDITURES	477,573	501,027	506,643	(5,616)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	46,891	27,813	29,564	1,751
OTHER FINANCING SOURCES (USES)				
Transfer to other funds (net)	(46,891)	(40,500)	(44,827)	(4,327)
TOTAL OTHER FINANCING SOURCES (USES)	(46,891)	(40,500)	(44,827)	(4,327)
NET CHANGE IN FUND BALANCE	0	(12,687)	(15,263)	(2,576)
Fund balance at beginning of year	22,392	22,392	22,392	
FUND BALANCE AT END OF YEAR	\$ 22,392	\$ 9,705	\$ 7,129	\$ (2,576)

OTHER FINANCIAL INFORMATION

COMBINING BALANCE SHEET--OTHER GOVERNMENTAL FUNDS

GWINN AREA COMMUNITY SCHOOLS

June 30, 2005

	Athletics	Capital Projects	Total Other Governmental Funds
ASSETS			
Cash	\$ 205		\$ 205
Other Receivable	1,306		1,306
Due from other funds		\$ 98	98
TOTAL ASSETS	<u>\$ 1,511</u>	<u>\$ 98</u>	<u>\$ 1,609</u>
LIABILITIES			
Accounts payable	\$ 1,313		\$ 1,313
Due to other funds	198		198
TOTAL LIABILITIES	<u>1,511</u>	<u>\$ 0</u>	<u>1,511</u>
FUND BALANCE			
Designated for capital projects		98	98
Undesignated			
TOTAL FUND BALANCE	<u>0</u>	<u>98</u>	<u>98</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,511</u>	<u>\$ 98</u>	<u>\$ 1,609</u>

COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCE--OTHER GOVERNMENTAL FUNDS

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2005

	Athletics	Capital Projects	Total Other Governmental Funds
REVENUES			
Local sources	\$ 48,937	\$ 44,611	\$ 93,548
TOTAL REVENUES	<u>\$ 48,937</u>	<u>\$ 44,611</u>	<u>\$ 93,548</u>
EXPENDITURES			
Supporting services	\$ 261,911	\$ 20,059	\$ 281,970
Capital outlay		70,013	70,013
TOTAL EXPENDITURES	<u>261,911</u>	<u>90,072</u>	<u>351,983</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(212,974)	(45,461)	(258,435)
OTHER FINANCING SOURCES (USES)			
Incoming transfers and other transactions	223,657		223,657
Transfers Out	(10,683)		(10,683)
TOTAL OTHER FINANCING SOURCES (USES)	<u>212,974</u>	<u>0</u>	<u>212,974</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (EXPENDITURES AND OTHER FINANCING USES)		(45,461)	(45,461)
Fund balance at beginning of year	<u></u>	<u>45,559</u>	<u>45,559</u>
FUND BALANCE AT END OF YEAR	<u>\$ 0</u>	<u>\$ 98</u>	<u>\$ 98</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2005

Funding Source/Program	Federal CFDA#	Accrued (Deferred) Revenue 7/1/2004	Prior Year Accumulated Expenditures	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue 6/30/2005
US DEPARTMENT OF EDUCATION						
Passed through Michigan Department of Education:						
Title I, Part A	84.010					
Project 041530 0304		\$ 23,495	\$ 361,986	36,551	\$ 13,056	
Project 041530 0405				\$ 16,745	16,745	
Project 051530 0405				224,563	333,368	\$ 108,805
		23,495	361,986	277,859	363,169	108,805
Title V	84.298					
Project 040250 0304		1,836	20,625	1,836		
Project 040250 0405				817	817	
Project 050250 0405				16,935	16,935	
		1,836	20,625	19,588	17,752	
Technology Literacy Challenge	84.318					
Project 054290 0405				9,267	9,267	
Comprehensive School Reform	84.332					
Project 031870 0304		(17,092)	225,584		17,092	
Project 041870 0405				215,479	216,567	1,088
		(17,092)	225,584	215,479	233,659	1,088
Improving Teacher Quality	84.367					
Project 040520 0304		3,577	92,502	6,539	2,962	
Project 040520 0405				8,340	8,340	
Project 050520 0405				71,709	96,534	24,825
		3,577	92,502	86,588	107,836	24,825
Total Passed through Michigan Department of Education		11,816	700,697	608,781	731,683	134,718
Passed through Marquette-Alger Regional Education Service Agency:						
Public Law 94-142 Flowthrough	84.027					
Project 040450 0304			124,586			
Project 050450 0405				113,781	115,132	1,351
			124,586	113,781	115,132	1,351
UP Cares (Autism Project)	84.027					
Project 040490 3D51			434			
UPAN (Autism Project)	84.027				294	294
Carl D. Perkins	84.048					
Project 4012 02		1,190	6,240	1,190		
Project 5012 02				6,110	6,110	
		1,190	6,240	7,300	6,110	

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2005

Funding Source/Program	Federal CFDA#	Accrued (Deferred) Revenue 7/1/2004	Prior Year Accumulated Expenditures	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue 6/30/2005
Preschool	84.173					
Project 040460 0304			\$ 1,072			
Project 050460 0405				\$ 1,000	\$ 1,163	\$ 163
			1,072	1,000	1,163	163
Safe and Drug Free Schools	84.186					
Project 042860/0405		\$ (302)	4,041			(302)
Project 052860/0405				4,279	4,234	(45)
		(302)	4,041	4,279	4,234	(347)
Total Passed through Marquette-Alger Regional Educational Service Agency		888	136,373	126,360	126,933	1,461
TOTAL US DEPARTMENT OF EDUCATION		12,704	837,070	735,141	858,616	136,179
US DEPARTMENT OF AGRICULTURE						
Direct Programs -						
Summer Food Program	10.559	3,264	8,727	13,020	14,430	4,674
Passed through Michigan Department of Education:						
National School Lunch Breakfast	10.553					
Project 041970				5,916	5,916	
Project 051970				65,895	65,895	
				71,811	71,811	
Food Distribution	10.550					
Entitlement Commodities				25,054	25,054	
Bonus Commodities				6,591	6,591	
				31,645	31,645	
National School Lunch Program:	10.555					
National S/L Section 4 All Lunches						
Project 041950				3,191	3,191	
Project 051950				30,110	30,110	
National S/L Section 11 Free and Reduced						
Project 041960				18,733	18,733	
Project 051960				165,278	165,278	
				217,312	217,312	
Total Passed through Michigan Department of Education				320,768	320,768	
TOTAL US DEPARTMENT OF AGRICULTURE		3,264	8,727	333,788	335,198	4,674

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2005

Funding Source/Program	Federal CFDA#	Accrued (Deferred) Revenue 7/1/2004	Prior Year Accumulated Expenditures	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue 6/30/2005
US DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Passed through Marquette-Alger Regional Educational Service Agency:						
Medicaid FFS Transportation	93.778			\$ 1,379	\$ 1,379	
Total Passed through Michigan Department of Education				1,379	1,379	
TOTAL US DEPARTMENT OF HEALTH AND HUMAN SERVICES				1,379	1,379	
COMMUNITY SERVICE						
Passed through Michigan Community Service Commission -						
Learn and Serve	94.004					
Project MCSC/MLS/F-78-04			\$ 12,517	1,664	1,664	
TOTAL COMMUNITY SERVICE			12,517	1,664	1,664	
HOMELAND SECURITY						
Passed through Michigan Department of State Police - Homeland Security Section						
Public Law 107-296				745	745	
TOTAL HOMELAND SECURITY				745	745	
TOTAL FEDERAL FINANCIAL ASSISTANCE		\$ 15,968	\$ 858,314	\$ 1,072,717	\$ 1,197,602	\$ 140,853

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2005

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The *Schedule of Expenditures of Federal Awards* is prepared using the same significant accounting policies as those used in the preparation of the general purpose financial statements.

NOTE B--RECONCILIATION OF FEDERAL AWARDS

Management has utilized the *Grants Section Auditors Report* (Form R7120) in preparing the *Schedule of Expenditures of Federal Awards*. The following schedule reconciles Form R7120 to the federal expenditures included in the *Schedule of Expenditures of Federal Awards*.

Total Receipts	\$ 898,868
Less: State Grants	
School Breakfast Program State Funds	8,828
Driver Education Grants	6,125
	<u>14,953</u>
Add: Payments not on R7120	
Recorded as receivable	13,989
Total Federal Receipts	897,904
Total Commodities	<u>31,645</u>
Total Federal Receipts	<u>\$ 929,549</u>
US Department of Education Grants	608,781
US Department of Agriculture Grants	<u>320,768</u>
Total Federal Receipts	<u>\$ 929,549</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gwinn Area Community Schools, as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements and have issued our report thereon dated October 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gwinn Area Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gwinn Area Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Board of Education
Gwinn Area Community Schools

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Makela, Tautant, Hill + Nardo, P.C.

October 15, 2005



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan

Compliance

We have audited the compliance of Gwinn Area Community Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Gwinn Area Community School's major federal programs are identified in the summary of results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Gwinn Area Community School's management. Our responsibility is to express an opinion on Gwinn Area Community School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Gwinn Area Community School's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Gwinn Area Community School's compliance with those requirements.

In our opinion, Gwinn Area Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.



Internal Control Over Compliance

The management of Gwinn Area Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Gwinn Area Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Makela, Toutant, Hill + Nardi, P.C.

October 15, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2005

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Gwinn Area Community Schools.
2. No reportable conditions were disclosed during the audit of the financial statements.
3. No instances of noncompliance, material to the financial statements of Gwinn Area Community Schools, were disclosed during the audit.
4. No reportable conditions were disclosed regarding the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for Gwinn Area Community Schools expresses an unqualified opinion.
6. There are no audit findings required to be disclosed under section 510(a) of OMB Circular A-133.
7. The program identified as major was Title I (CFDA #84.010).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Gwinn Area Community Schools qualified as a low-risk auditee.